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Report of the External Auditor

Report by the Secretariat

The Director-General has the honour to transmit to the Sixty-eighth World Health Assembly the report of the External Auditor on the financial operations of the World Health Organization for the financial year ended 31 December 2014 (see Annex).

ANNEX

**Republic of the Philippines
COMMISSION ON AUDIT
Quezon City**



**Report of the External Auditor
to the Sixty-eighth World Health Assembly
on the Financial Operations of the
World Health Organization**

**For the Financial Year Ended
31 December 2014**

**REPORT OF THE EXTERNAL AUDITOR
TO THE SIXTY-EIGHTH WORLD HEALTH ASSEMBLY
ON THE FINANCIAL OPERATIONS OF
THE WORLD HEALTH ORGANIZATION
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014**

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LIST OF ABBREVIATIONS

AAR	Award Activation Request
AFRO	Regional Office for Africa
AMRO	Regional Office for the Americas
APOC	African Programme for Onchocerciasis Control
APW	Agreement for Performance of Work
ASHI	After-Service Health Insurance
CFLD	Corporate Framework for Learning and Development
CN	Category Network
CO	Country Office
CPS	Contracts and Procurement Service
CRC	Contracts Review Committee
CRE	Compliance, Risk Management and Ethics Office
DAF	Director for Administration and Finance
DFC	Direct Financial Cooperation
EMRO	Eastern Mediterranean Regional Office
ERM	Enterprise-wide Risk Management
EURO	Regional Office for Europe
FCFS	Final Certified Financial Statements
FPI	Packaging, Freight and Insurance
GAP	Government Accountability Project
GES	General External Services
GFI	Global Finance
GLC	Global Learning Committee
GMG	General Management
GPG	Global Policy Group
GPL	Global Procurement and Logistics
GSC	Global Service Centre
GSM	Global Management System
GSMC	Global Staff/Management Council
HQ	Headquarters
HR	Human Resource
HRD	Human Resource Department
HSE	Health Security and Environment Cluster
HTM	HIV/AIDS, Tuberculosis, Malaria and Neglected Tropical Diseases Cluster
IARC	International Agency for Research in Cancer
ICC	International Computing Centre
ICF	Internal Control Framework
IEOAC	Independent Expert Oversight Advisory Committee
IOAD	Internal Audit and Oversight Division
IOS	Office of Internal Oversight Services
IPSAS	International Public Sector Accounting Standards
IRPF	Integrated Results and Performance Framework
JIU	Joint Inspection Unit

LEG	Office of Legal Counsel
LOA	Letter of Agreement
LTA	Long-term Agreement
MDG	Millennium Development Goals
MTR	Mid-Term Review
MTDP	Medium Term Strategic Plan
OSS	Operational Support and Services
PAHO	Pan-American Health Organization
PAN	Programme Area Networks
PB	Programme Budget
PBPA	Programme Budget Performance Assessment
PMDF	Performance Management and Development Framework
PMDS	Performance Management Development System
PEC	Polio, Emergencies and Country Collaboration Cluster
PTAEO	Project, Task, Award, Expenditure Type, Organization
PO	Purchase Order
PRP	Planning, Resource Coordination and Performance Monitoring
PSC	Property Survey Committee
RBM	Results Based Management
RMS	Records Management System
RPE	Request for Price Estimate
SEARO	Regional Office for South-East Asia
SFFC	Special Fund for Compensation
SHI	Staff Health Insurance
SMART	Specific, Measurable, Achievable, Relevant and Time-bound
SOP	Standard Operating Procedure
SSA	Special Service Agreements
ToR	Terms of Reference
TP	Terminal Payment
TSA	Technical Services Agreement
UN	United Nations
UNDP	United Nations Development Program
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNITAID	International Drug Purchase Facility
WCO	WHO Country Office
WHA	World Health Assembly
WPRO	Regional Office for the Western Pacific
WHO	World Health Organization

EXECUTIVE SUMMARY

Introduction

1. This Report of the External Auditor on the audit of the financial statements and operations of the **World Health Organization (WHO)** is issued pursuant to Regulation XIV of the Financial Regulations of WHO and is transmitted through the Executive Board to the Sixty-eighth World Health Assembly.

2. This is the third long-form report to the World Health Assembly by the Chairperson of the Commission on Audit of the Republic of the Philippines who was appointed by the Sixty-fourth World Health Assembly, by resolution WHA64.23, as the External Auditor of WHO for the financial periods 2012-2015. The objective of the audit is to provide independent assurance to Member States, to increase transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process. We have detailed in this Report the financial and governance matters that we believe should be brought to the attention of the World Health Assembly.

Overall Result of the Audit

3. In line with our mandate, we audited the financial statements of WHO in accordance with the Financial Regulations and in conformity with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

4. Our audit resulted in the issuance of an unmodified audit opinion on the Organization's financial statements for the financial year ended 31 December 2014. We concluded that the financial statements present fairly, in all material respects, the financial position of WHO for the financial year ended 31 December 2014, and its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with the International Public Sector Accounting Standards (IPSAS).

5. We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of WHO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of WHO.

6. We also conducted reviews on programme, human resource, and risk management, and regional and country operations and financial control. We provided significant recommendations to improve the efficiency and effectiveness of management, to support the objectives of WHO's work, increase accountability and transparency, and improve and add value to WHO's financial management and governance.

Summary of Recommendations

7. The following audit recommendations which are discussed in detail in this report are provided to WHO Management:

- a. **Implement and maintain a centralized tracking tool for donor agreements and donations in-kind, record all the in-kind donated property that meet the monetary threshold in the correct financial period, formulate standard operating procedures for**

LOAs, formulate global standard operating procedures on the disposal of expired inventory items to enhance its inventory management system and enforce compliance with the requirements on DFC to further minimize the number of overdue DFC reports (paras. 30,32,35,40,44,49,53);

b. Pursue the planned GSM transformation to improve the quality of data sources and the efficiency of system processes, and address the issues noted in the audit of the Global Service Centre (para. 55);

c. Formalize a Term of Reference (TOR) to have a formal mechanisms for communication, facilitation, monitoring and evaluation of the results of the Category Networks and Programme Area Networks, finalize the planned Programme Monitoring Framework within the defined timeframe, continuously improve the formulation of the elements of the results chain to support harmonization of its presentation in the PB 2016-17 and enhance the MTR template to achieve clearer linkages of actual deliveries to planned deliverables (paras 63, 68, 74, 78, 83, 89 and 93).

d. Identify and provide appropriate capacity building and learning initiatives across Programmes to strengthen analysis, review and reporting of results, enhance monitoring activities on the task status and progress in each workplan, and ensure that fiscal and budgetary figures are brought to agreement particularly towards the start of periodic assessments so these data can have a higher degree of correlation to reported accomplishments (paras. 96, 103 and 108);

e. Formalize a change management strategy in the implementation of the revised HR Strategy, develop an Action/Implementation Plan, draw a robust governance arrangement for the HR Strategy and identify the implementation risks in a comprehensive manner for the HR Strategy to facilitate implementation, monitoring and measurement of results, and to establish accountability for results (paras. 116, 120, 124 and 127);

f. Ensure that the Human Resource Department engaged with the hiring departments responsible for the recruitment of temporary staff members to make certain that transparency, gender parity and geographical representation requirements are effectively observed, engage with the members of the Selection panel, Hiring Units and the recruitment teams to determine optimal timing in the conduct of technical and competency assessment and ensure that the agreed time periods are adhered to, enhance further the reference checking activities, and optimize the use of the HR tracking tool to further improve recruitment process (paras. 131, 135, 139 and 143);

g. Develop a workforce planning model as called for by the World Health Assembly and the appropriate tools such as the skills inventory, staffing and skills gap analyses, and workforce risk assessment including a succession planning policy for implementation in the ongoing workforce planning exercise (paras. 149 and 155);

h. Craft knowledge transfer strategies based on best practices and develop a plan to implement them, incorporate clear requirements in the ePMDS+ for the identification of the activities, outputs, outcomes, and performance indicators under each objective, and develop a quality assurance framework for iLearn that should contain systematic measurement processes, comparison with a standard, monitoring of processes and an

associated feedback loop that confers achievement of organizational learning objectives (paras. 59, 163 and 168);

i. Continue the work in embedding risk management within the Organization and consider enhancing the transitional risk management framework (para.176); and

j. Ensure that the heads of offices in EMRO, WPRO, WCO Pakistan and WCO Vietnam consider the improvement opportunities raised during the audit of their respective offices to further strengthen internal control, and enhance transparency and accountability. (para. 213)

Implementation of External Auditor's Recommendations in Prior Years

8. We validated the implementation of External Audit Recommendations contained in prior years' audit reports. We noted that of the 31 recommendations, 13 or 42% have been implemented, 13 or 42% are still in progress of implementation, 4 or 13% were closed as these recommendations are covered by recent recommendations, while 1 or 3% was closed in view of Management representation that it is no longer feasible to implement. The status of the 13 recommendations which are in progress will be validated and reported in the next financial reporting period. **Annex A** presents the detailed analysis of the implementation of the recommendations.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

9. The Chairperson of the Commission on Audit of the Republic of the Philippines was appointed External Auditor of the WHO in May 2011 by the Sixty-fourth World Health Assembly, by resolution WHA64.23, for the financial periods 2012-2015. The WHO Financial Regulations XIV and the Appendix elaborate on the terms of reference governing the external audit. The regulations require that the External Auditor report to the World Health Assembly on the audit of the annual financial statements and on other information that should be brought to its attention with regard to Regulation 14.3 and the Additional Terms of Reference.

Scope and Objectives

10. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of WHO's compliance with Financial Regulations and legislative authority. The primary objectives of the audit are to provide an independent opinion on whether:

- a. the financial statements presented fairly the financial position, the results of financial performance, the changes in net assets/equity, the cash flows, and the comparison of actual amounts and budget of WHO for the financial year ended 31 December 2014 in accordance with IPSAS;
- b. the significant accounting policies set out in Note 2 to the financial statements were applied on a basis consistent with that of the preceding financial period; and
- c. the transactions that have come to our notice or that we have tested as part of the audit, in all significant respects, complied with the Financial Regulations and legislative authority.

11. We also carried out a review of WHO operations with regard to Financial Regulation 14.3 which required the External Auditor to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and in general, the administration and management of WHO operations.

12. Overall, the audit intends to provide independent assurance to Member States, to increase transparency and accountability in the Organization, and to support the objectives of the Organization's work through the external audit process.

Methodology and auditor's responsibilities

13. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. The audit includes examining evidence supporting the amounts and disclosures in the financial statements on a test basis. The audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements.

14. The Risk-based Audit Approach was adopted in the audit of the financial statements. This approach requires the conduct of risk assessments of material misstatements at the financial statements

and assertions levels based on an appropriate understanding of the entity and its environment including its internal control.

15. The auditor's responsibility is to express an opinion on the financial statements based on an audit. The audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free of material misstatement including those caused by fraud or error.

16. With respect to the review of WHO operations in line with our risk assessment, we focused on the following:

- a. Programme management;
- b. Human Resource management; and
- c. Risk management.

17. During the financial year 2014, we audited the Headquarters (HQ), Global Service Centre (GSC), two regional offices (RO) namely: the Western Pacific Regional Office (WPRO) and the Eastern Mediterranean Regional Office (EMRO), and two country offices (CO): Pakistan and Vietnam.

18. We also audited the financial statements of six non-consolidated entities, namely: the African Programme for Onchocerciasis Control (APOC); the Trust Fund for the Joint United Nations Programme on HIV/AIDS (UNAIDS); the United Nations International Computing Centre (ICC); the International Agency for Research in Cancer (IARC); the International Drug Purchase Facility (UNITAID); and Staff Health Insurance (SHI) Fund. A separate report to the Governing Body of these entities is issued.

19. This report does not include any comments on the financial statements of the Pan American Health Organization (PAHO), the Regional Office for the Americas (AMRO), which is being audited by the Spanish Court of Audit. We placed reliance on their audit based on the Comfort Letter dated 9 March 2015.

20. We coordinated planned audit areas with the Office of Internal Oversight Services (IOS) to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on IOS work. We also collaborated with the Independent Expert Oversight Advisory Committee (IEOAC) to further enhance our audit work.

21. We continued to report audit results to WHO Management in the form of audit observation memoranda and management letters containing detailed observations and recommendations. The practice provides a continuing dialogue with Management.

B. RESULTS OF AUDIT

22. The present report covers matters that, in the opinion of the External Auditor, should be brought to the attention of the World Health Assembly. The WHO Management was afforded the opportunity to comment on our audit observations. The recommendations provided to Management are designed to support the objectives of WHO's mandate, and to improve and add value to WHO's financial management and governance.

1. FINANCIAL MATTERS

1.1 Audit of Financial Statements

23. We recognize the efforts taken by Management to address a number of recommendations issued in the course of the interim and year-end audits of the WHO 2014 financial statements in order to present fairly the balances of the affected accounts and improve the presentation and disclosure requirements in compliance with IPSAS. Adjustments on balances affecting several statements were effected and additional note disclosures were included by Management in the financial statements for the period ended 31 December 2014.

24. We issued an unmodified opinion on the presentation of WHO's financial statements. As such, we concluded that the financial statements present fairly, in all material respects, the financial position of WHO for the financial year ended 31 December 2014, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS as set out in Note 2 to the financial statements.

25. As required by WHO Financial Regulations, we concluded that the accounting policies were applied on a basis consistent with that of the preceding year. Further, we concluded that the transactions of WHO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of WHO.

26. We noted, however, other financial issues which need to be addressed by Management to further improve financial transactions recording, processing and reporting and ensure the fair presentation of the financial statements in the next reporting period. Management acknowledge that there is work to be done in the areas of timely recording of both cash and in-kind contributions, procedures surrounding letters of agreements, direct financial cooperation, tracking of construction in progress, inventory and disposal of expired inventory items. These issues were communicated through a Management Letter dated 31 March 2015.

1.2 Revenue Recognition

27. Our review revealed that 14 donor agreements signed and effective in 2014 involving at least US\$ 1.77 million were not recognized in 2014 since the dates of receipt of Award Activation Requests (AARs) or approval of awards in GSM came after 29 January 2015 or the cut-off date for financial reporting. The AARs for these agreements were received by the GSC in February 2015, thus recording of revenue and accounts receivable based on donor agreements and revenue recognition policy of the Organization could not be done as Accounts Receivable Module in GSM was already closed for 2014.

28. We recommended in our interim audit and Management agreed to maintain a centralized tracking tool for donor agreements to provide adequate, timely and reliable information on donor agreements and address the delay in the creation of award particularly at cut-off period for financial reporting.

29. Management commented that as at 13 March 2015, a formal project proposal is being finalized and most of the necessary profiles and workflows have been initially designed. A testing phase is planned for May 2015 with initial roll-out for September 2015. It was added that the tracking tool will be a part of a larger IT tool, the Global Engagement Tool.

30. **We recommended and WHO agreed to pursue the implementation and maintenance of centralized tracking tool for donor agreements as planned to capture donor agreements at an early stage and provide timely information on signed agreements which will facilitate follow-up of award creation and consequently revenue and accounts receivable.**

1.3 Classification of Revenue for financial reporting

31. In our review and analysis of the 2014 Schedule of Voluntary Contributions and the corresponding donor agreements, we noted an error in the capture of the correct payment terms in the creation and approval of awards in GSM which resulted in the improper recording of instalments totaling US\$ 10.96 million from six awards which were still due in 2015 per payment terms but were classified as due in 2014, thus, misclassifying the current revenue and the deferred revenue. While the FNM/ACT already effected the necessary adjustments to correct the balances of the affected accounts in the Financial Statements, this error highlighted the need to accurately capture in GSM the payments terms in the creation and approval of awards.

32. **We recommended and WHO agreed to improve the accuracy of recording information in award records by ensuring that payment terms per Donor Agreement are captured correctly in GSM.**

33. As Management recognizes the high importance of accurate processing of individual transactions, it will impress upon the award creation and amendment teams to consistently follow the agreed process in the correct recording of revenue. It will also remind the reviewers of newly created awards and amendments that a full review is needed of the payment terms screen, created invoice split and notes to file. Furthermore, the review of the amount receivable will be strengthened to ensure amounts are entered correctly based on confirmed payment terms.

1.4 Recording of in-kind contributions – free use of office premises

34. In spite of the increase in the reported revenue and expenditure relating to the free use of office premises from US\$ 3.6 million in 2013 to US\$ 12.6 million in 2014 or 251 percent increase, we noted that the equivalent rental of US\$ 2.6 million from nine awards was not recorded in 2014 due to delay and/or non-creation of expenditure batches in GSM as at closure for the 2014 financial reporting. On the other hand, the revenue and expenditure on the free use of four premises in 2013 with equivalent rental value of US\$ 5.2 million were reported in 2014.

35. **We recommended and WHO agreed to record all the in-kind donated property that meet the monetary threshold in the correct financial period using updated applicable equivalent market rent of property provided free by the host countries.**

36. Management committed to remind the Award Manager/Administrator, Regional Office, Country Office and GSC/AWC of their responsibilities to ensure that revenue and expenditure relating to awards for in-kind contributions are recorded completely and accurately in the financial periods to which they relate.

1.5 Recording of in-kind contributions – vaccines and medicines

37. We noted that donated medicines and vaccines from warehouses amounting to US\$ 444,969 were included in the 2014 year-end inventory. As such, it was included in the net movement of

inventories which impacts on the balance of Medical supplies and materials expense, Inventory Cost Adjustment and the Deferred Revenue accounts for donated medicines and vaccines.

38. Our review of the supporting documents of *e*Expenditure batches made at year-end of 2014 also revealed that donated medicines amounting to US\$ 453,600 which were received by recipients in 2013 were included in the reported revenue and expenditures for 2014. In spite of periodic reminders and follow-ups sent to all ROs and Award Managers/Administrators to record in-kind/service contributions on a timely basis, we still noted non-submission of the *e*Expenditure batches by the TUs/ROs before the cut-off period which prevented the recording of revenue and expenditure amounting to US\$ 1,426,205 in 2014 from the sample awards tested.

39. During the interim audit, it was also noted that a department (Control of Neglected Tropical Diseases) tracks the delivery of donations or expected time of arrival in the country of destinations based on Purchase Orders or Invoices from the donors. This information serves as basis for follow up to facilitate recording of donated in-kind contributions.

40. **We recommended and WHO agreed to establish a clear cut policy on who will initiate and be responsible for recording donations in kind which remain at the warehouse as at cut-off date for financial reporting and develop a tracking tool for donations in-kind to capture information for proper monitoring and timely recording of contributions.**

41. Management commented that the procedures for recording donated medical supplies and vaccines included in inventory will be completed by July 2015.

1.6 Standard Operating Procedures (SOP) for Letter of Agreement (LOA)

42. The expenditures covered by LOAs were reported under the transfers and grants to counterparts. For the past three years, there is an upward trend in the amounts paid by the Organization under LOA from US\$ 4.87 million in 2012 to US\$ 13.56 million in 2013 and US\$ 41.04 million in 2014.

43. We noted, however, that there is no SOP for LOAs notwithstanding the substantial amounts being expended by the Organization under this type of agreement. In the absence of an SOP, there are no clear-cut criteria and process steps for assessing and selecting grantees and in evaluating the reasonableness and economy of financial proposals, as required in Section XVI.3 of the WHO *e*Manual. Considering that payments of up to 100% of LOAs for grants can be authorized without the need for Comptroller's or DAF's approval, unlike DFCs where DAF approval is required for full payments, the SOP should also provide adequate control procedures and well-defined responsibilities to ensure that funding through grants constitutes a good use of public resources.

44. **We recommended and WHO agreed to formulate SOP for LOAs clearly defining the criteria, process steps, responsibilities and control procedures.**

45. Management commented that an SOP for LOAs, including clearly defining in what circumstances this contractual modality may be used, will be formulated in collaboration with Procurement during 2015.

1.7 Standard Operating Procedures on Disposal of Expired Inventories

46. We noted that existing SOP on Inventory Management and Reporting related to disposal of expired inventory items merely describes the responsibilities of the Property Survey Committee (PSC),

the HQ – Director, OSS and the RO – DAF but the underlying procedures are not defined. It is essential that overall disposal procedures are established and operating as intended to demonstrate that resources are effectively managed and efficiently controlled.

47. Our validation revealed that PSR Logistics, which manages the stocks in HSE Warehouse – Sauvin Schmidt, has its own disposal procedures for all stocks managed. EMRO also confirmed that it has a different set of procedures in place. Disposals are normally done by the government's Ministries of Health, although there are considerations of the applicable guidelines from the technical unit of EMRO and pre-agreed disposal requirement from the suppliers themselves.

48. We also noted expired inventory items valued at US\$ 9.15 million which are stored in the warehouses as at 2014 financial reporting period. We confirmed the existence of expired Tamiflu tablets the HSE Warehouse – Sauvin Schmidt and noted that disposal was already requested two years ago. Key Account Manager disclosed that the existing expired items occupy 60 out of the total 114 pallets and additional costs are incurred for the storage of these items. Delay in the disposal of expired inventories was also noted at WPRO/ESR. The prolonged holding of expired inventory items would result in the accumulation of these items in the warehouses and would cause Management to continue incurring storage fees and relevant maintenance charges.

49. We recommended and WHO agreed to formulate global standard operating procedures on the disposal of expired inventory items stored in all warehouses to enhance its inventory management system. Thereafter, take action to facilitate the disposal of expired items to avoid their accumulation in the warehouses and prevent incurrence of unnecessary additional storage fees and other charges.

50. OSS/AMG pointed out that it will augment the current Inventory Management SOP by working with technical units to formulate procedures that will facilitate their roles and responsibilities when stock expires and is to be disposed of.

1.8 Direct Financial Cooperation

51. The DFC Monitoring Report for the period 1 January to 31 December 2014 showed a significant decrease in the number of overdue DFC reports from 3,234 as at 31 December 2013 to 1,287 as at 31 December 2014, registering a decrease of 60 percent. Confirmation made with the audit teams in EMRO and WPRO validated the reported decrease in overdue reports in the said regional offices. We recognize the effort of Management in this regard.

52. Management reported that the still high number of overdue reports may partly be attributed to insufficient training of GSM users as contracts may be entered incorrectly in GSM. FMN/ACT commented that it will continue to work closely together with Regional counterparts to ensure that the number of overdue DFC reports will be further reduced during 2015.

53. We recommended and WHO agreed to continue to vigorously enforce compliance with the requirements on DFC to further minimize the number of overdue DFC reports, and ensure that the GSM users in the COs are properly trained and knowledgeable of the process steps to be undertaken in the receipt of DFC reports.

1.9 Global Service Centre (GSC)

54. Our audit of the GSC disclosed deficiencies which need to be addressed and these are discussed extensively in the Management Letter issued to the Director of GSC on 27 March 2015. Included in the noted deficiencies were as follows:

- a. Non-recognition of expenses in the appropriate financial period due to absence of clear-cut policy on receipting of goods in GSM.
- b. Control gap in receipting and in Evaluated Receipt Settlement (ERS) invoice validation and approval processes which allows multiple receipts on the same deliverable, even if the total amount receipted already exceeded the amount of the Purchase Order (PO), resulting in a case of triple payment of a DFC contract.
- c. Existence of long outstanding accounts payable to suppliers aged more than 1 year totalling US\$ 337,268, an increase of US\$ 213,938 from the balance as at 31 December 2013 as shown in AP aging report as at 31 December 2014.
- d. Inconsistencies between eManual provisions and GSM calculation formula on hardship allowance.
- e. Gaps in the processing of prepayments as transactions processed by GFI as the standards set in the eManual, Financial Rule VII and FIN.SOP.X.030 have not been consistently followed.
- f. Unacted planned amendment to FIN.SOP.XII.004 on un-invoiced receipts accruals.
- g. Need to engage the Director of HR to automate mobilization and non-removal allowance into GSM.
- h. Non-submission/non-uploading in RMS of supporting documents and absence of standard policies and procedures on the selection of samples for post-facto quality check.
- i. Receipt in GSM not supported with copies of the deliverables as stated in the contracts and required to be uploaded in RMS such as technical report, financial statement or DFC report.

55. **We recommended that WHO pursue with the planned GSM transformation to improve the quality of data sources and the efficiency of system processes, and to address the issues noted in the audit of the GSC.**

2. GOVERNANCE MATTERS

56. In line with our mandate to make observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the management and operations of the Organization pursuant to Regulation 14.3 of the WHO Financial Regulations, we reviewed the areas on Programme Management, Human Resource Management, and Risk Management. Value-adding recommendations were communicated and discussed with Management to ensure efficient and effective management of the Organization, and these are discussed below:

2.1 Programme Management

57. Our review of WHO's programme management is a key area in our audit agenda as we endeavour to align our activities with the Organization's vision in its 12th General Programme of Work – enhanced delivery of global health impacts and increased accountability, efficiency and effectiveness. The inherent complexities in the delivery of the specific programmes open the Organization to vulnerabilities particularly due to the external environment within which these programmes operate. Given the substantial fiscal and human resources that are put into this exercise and the challenges endemic to managing the Organization's programmes, we deemed it necessary to take a closer look at the important dimensions of programme delivery such as accountability, risks and controls. These dimensions enabled us to deliver the audit value that we also envisioned.

58. The responsibility for the achievement of WHO's planned results is spread across the three organizational levels. In order to measure performance in the delivery of these results and to render account on their commitments, progress needs to be monitored and reported against pre-determined parameters, against which the success or failure of WHO's programmes will be measured.

59. Our review of the interim programme deliveries was attuned to these expectations. We defined our scope to include the programmes under Categories 1 and 5 as they comprise the largest share of the Programme Budget (PB) for the current biennium and the dependencies of these programmes on the Planning, Resource Coordination and Performance Monitoring (PRP). We recognize the progress the PRP and the networks had achieved in programme management and in Mid-term Review considering that this is the transition biennium for the new result chain. Our review of programme management resulted in the following improvement opportunities which are discussed in detail in the following paragraphs with the corresponding recommendations:

2.1.1 Programme Governance

Formal Terms of Reference for Category Networks and Programme Area Networks

60. We noted that Category Networks (CNs) and Programme Area Networks (PANs) play increasing roles in leading programme development by ensuring that all budget centre workplans are consistent with the outcomes, outputs and deliverables outlined in PB 2014-2015 including review of staff and activity resource requirements and income planning. Regional offices and clusters are responsible for overseeing budget allocations and workplan development under their line management responsibilities based on the guidance of the CNs and PANs.

61. With the importance given to CNs and PANs, these should be provided with formal and documented bases for making future decisions and for confirming or developing a common understanding of the scope among stakeholders as these are crucial in the preparation of the PB. Recently, CN and PAN memberships have been revised and identified. This was in response to the recommendation of the Task Force (on Roles and Functions of the Three Levels of the Organization) to the Global Policy Group (GPG) on the management and oversight of CNs and PANs. Thus, the establishment of the Terms of Reference (ToRs), which is the highest level of formal mechanisms for communication, facilitation and monitoring, and evaluation of the results of the CN and PAN, is indispensable. Inquiry with the PRP revealed that there was no formal ToR developed to date. They informed us however, that the TOR of the CN and PAN are discussed and decided by the GPG and noted in the formal reports of the respective meetings. While they agree that more formalization and publishing the TOR would further strengthen the Networks, the decisions made by GPG are considered formal as well.

62. A well-specified ToR is a vital step in managing a high-quality evaluation of the networks' roles, functions and deliverables. It provides the basis for an institutional arrangement done by the networks for the three levels of the organization and establishes the parameters against the success of implementation and evaluation within which the networks can be assessed.

63. **We recommended that the PRP take the lead in engaging with the WHO GPG and the networks for Categories and Programme in formalising a ToR that details how the scope, purpose and structure will be defined, developed, and verified for both the Category and Programme to have formal mechanisms for communication, facilitation and monitoring, and evaluation of the results of the CN and PAN.**

2.1.2 Results-Based Management in Programmes

Harmonization of Output statements and consistent presentation of the products and services of the Programmes

64. We noted that a new RBM framework has been adopted by WHO for programming and budgeting. The PB clarified that implementation of a clear results chain based on standard terminology is an additional key element of the reform that has been integrated into the PB. The results chain in the framework links the work of the Secretariat (outputs) to the health and development changes to which it contributes, both in countries and globally (outcomes and impacts).

65. The WHO results chain is clear and likewise clearly indicates that outputs are products and services which are the Secretariat's responsibility, while outcomes are the joint responsibility of the Member States and the Organization. The outputs formulated by the programmes, however, reflect products or services which require interaction with the Member States to enable their delivery. Some of the outputs may appear as outcomes but they do not reflect the changes in the countries supported. The GPW12 describes outcomes as the changes in countries to which the work of the Secretariat is expected to contribute.

66. As the Organization renders an accounting of the funds it has been entrusted with, it is paramount that the defined accountabilities are appropriately expressed. Outputs that reflect the work of countries or of the Organization in collaboration with the Member States and partners beyond what its resources can finance have to be delineated. Taking responsibility for changes that the Organization is not solely accountable for puts the Organization at risk of not achieving its outputs as there are elements in the expected changes that are beyond its control.

67. Management agreed with the fact that some of the output statements in the approved Programme Budget 2014-15, required further improvement, and concerted efforts were made to improve their quality and consistency in the proposed Programme Budget 2016-17.

68. **We recommended that the PRP ensure continues improvement of the formulation of the elements of the results chain to support harmonization of its presentation in the PB2016-17 and ensure the consistent application of the attributes of an output statement across the Category and the Organization.**

Identification of assumptions and risks for all outcomes, outputs and deliverables, and risk mitigation strategies in the Integrated Results and Performance Framework

69. Risk management as defined by WHO is a means of identifying, assessing, prioritizing and controlling risks across an organization, including programmes and projects, with a coordinated and cost-effective application of resources to minimize, monitor, and control the probability and/or impact of adverse events or to maximize the realization of opportunities. As it is, programmes are implemented within an environment which is not totally controlled by the WHO programme implementers. The assumptions and risks are, thus, to be identified at all levels of results. To effectively manage the programmatic risks, the programmes need to identify the potential risks, evaluate the potential impact and develop mitigation strategies to eliminate or mitigate the impact of the risks.

70. While the Step-by-Step Guidance for the PB 2014-2015 Operational Planning required the CNs and PANs to identify the programmatic assumptions and risks associated with the achievement of the outcomes, outputs or deliverables in the Integrated Results and Performance Framework (IRPF), we observed that some assumptions and risks for the programmes under Categories 1 and 5 were not identified in the IRPF for all the outcomes, outputs and deliverables.

71. We also noted that while the required risk register identifying the programmes' risks and mitigation strategies was prepared and submitted by the budget centers, it did not present the risks in the Register by outcomes, outputs, and deliverables. It could not, therefore, address the absence of the mitigation strategies in the IRPF since the Register was not focused on the outcome and outputs.

72. Management agreed that the identification of assumptions and risks for all the results hierarchy should be further improved, however it is a work in progress and not all is missing.

73. The non-identification of the assumptions and risks for all outcomes, outputs and deliverables now impedes programme managers' succeeding decisions particularly on risk mitigation. Since mitigation strategies were not identified, there will be no plan of action or remedy executed to address the risks and its likely occurrence.

74. **We recommended that the PRP engage with the Compliance, Risk Management and Ethics Office (CRE) on the development of a risk taxonomy at the Programme Level that will enable the identification of programmatic risks and matching of the outcomes, outputs and deliverables of the programmes for adoption in their respective Risk Registers.**

2.1.3 Programme Monitoring Framework

Finalized and more stable programme monitoring framework

75. We noted that WHO recognizes the need for programme performance monitoring and assessment to properly manage the PB and to ensure that it is achieving the results that it committed to deliver. The WHO PB for the current biennium indicated that monitoring will be based on a systematic assessment of progress towards the achievement of results as reflected in the PB, albeit for the current PB, the existing process for assessment and review will be used but using well-defined tools and processes to further enhance its rigor. The PB further indicated that, for the current biennium, the existing monitoring framework is revised to outline in more detail how the programme outputs will be measured. Said planned framework is expected to further define the indicators, baselines and targets, how they will be measured, the tools for measuring and the means for verifying

the indicators, baselines and targets, and describe how each of the levels of the Organization are contributing, or have contributed, to results.

76. The PRP provided us with a working draft of the overview of the WHO IRPF. Pending finalization of the IRPF and in view of the ongoing preparation of the Mid-Term Review (MTR) for PB 2014-2015, we noted that the PRP issued GSM guidance notes on the related processes for outputs, workplans and top tasks including an overview of the process and the timelines. For Categories 1 and 5, we observed that the programmes have their own monitoring and data collection mechanisms, albeit less formal and fragmented.

77. While the PRP assured us that the framework will be completed to guide the Programme Budget Performance Assessment (PBPA), the timing of such delivery is now a matter of concern as the first half of the biennium had already drawn to a close and since a material portion of the targets for the outputs in the PB are set to be achieved by 2015, a monitoring framework has become more than a necessity. PRP likewise confirmed that the framework exists, however they agreed that the current framework requires updating and further improvement as per changes introduced by the programmatic reform.

78. We recommended that the PRP ensure the delivery of the planned programme monitoring framework within the defined timeframe to support subsequent decisions and learnings from programme results.

2.1.4 Programme Mid-term Review

Linkages of reported accomplishments/outputs with the products, services, and deliverables

79. In the development of the workplans, we noted that some programmes were linked to the deliverables by the 5-digit code provided. The MTR sub-section on “Progress and challenges at regional and global levels” stated that the focus of the section is on a few major “flagship” public goods, regional and global as applicable, which contribute to the achievement of the outputs.

80. We also determined that Programmes rated some of their outputs as “On track” but did not provide the analyses and disclosures on how products and services which were not funded, not started, at risk or in trouble as shown in their workplans would affect the delivery of their outputs.

81. Management informed us that the linkages are hard coded into GSM and delivery of products and services (in workplans) could not be funded unless the workplan has an approved link to a relevant Output. However, they agreed that the linkage should be better explained at the time of reporting (outside GSM).

82. If reporting on the MTR requires focus on major products and services, it is essential for programmes to identify and uniformly use the products and services under each deliverable from the operational planning stage to monitoring and performance assessment to facilitate their linkage to the deliverables and the outputs. Otherwise, reporting on the progress of the outputs without presenting products and services by deliverables consistently would not facilitate analysis of progress towards achievement of the outputs and the rating of the outputs.

83. We recommended that the PRP closely engage with the programme responsible officers and enhance the MTR template as agreed to achieve clearer linkages of actual deliveries to planned deliverables.

Output measurement and progress based on updated indicators, baselines and target, and programmatic risks

84. Prior to the assessment of progress towards achievement of the outputs, we observed that several steps have to be undertaken, the details of which were provided by the PRP in the GSM Guidance Note on the MTR for the top tasks, workplan and outputs. The guidance note on the outputs required the updating of indicator values and the comments on actual progress in relation to indicators, where indicator progress value should be compared to the target value. We also noted that the MTR's sub-section, Risks and Assumptions, required the discussion of the conditions and uncontrollable events based on the Risk Register which have influenced or are likely to influence achievement of the deliverables and outputs and the strategies used or will be used to mitigate the risks, among others.

85. Our review of the available MTR reports for Categories 1 and 5 showed that all outputs were labeled as "on track". Except for Tuberculosis Programme which updated its target value for the indicator, "Number of countries in which the WHO-recommended rapid diagnostic for tuberculosis and drug-resistant tuberculosis is being implemented", the other programmes did not update the target values for their output indicators at mid-term. The Programme Managers informed us that reporting on the progress of the outputs using the indicators was not required for the MTR but for the PBPA.

86. The PRP explained that responsible officers reporting at the output level will have to take into consideration the totality of the results structure and their contents including how these results will be measured, when providing their judgment on the contribution to the achievement of the outputs. We were also informed that an update on the target value for the output indicators is not required but judgment is expected with regards to progress made towards the achievement of the targets. However, programmes are not precluded from reporting progress on their output indicator target values at the major office level if required for their internal managerial purposes. Management further informed us that while they agree that several indicators in PB 2014-15 required update, action was taken to improve and complete the information particularly for the proposed PB 2016-17.

87. The programmes can make better judgment on the progress towards the achievement of their outputs if the target values will be updated. Considering that several indicators have baselines as at 2010 – 2012, the MTR is an opportunity to update their targets as well as their baselines based on available validated data.

88. We highlight the fact that if updating of the baselines and targets are not done at least at mid-term, programmes may not be appraised early on of the probability of their outputs not being achieved and the related risks not identified and mitigated. Issues needing senior management decision/action may not also be appropriately escalated for remedial action/s. Further, non-updating of risks would not provide the programmes information on whether previously identified risks remain as threats to the delivery of the outputs or whether new threats exist which may not be considered in the analysis of progress of the outputs.

89. **We recommended that the PRP require programme responsible officers to consider updating the set baselines and targets for outputs at midterm and use the same in the rating of outputs in the MTR; enhance the MTR template by considering the requirement for programme responsible officers to use identified output-specific risks in the analysis of progress of delivery of outputs and reconcile these risks with those documented in the Risk Register; and require programme responsible officers to update the risks to the delivery of the outputs and to use the same in the analysis of the progress towards the attainment of the outputs.**

Use of Planned Financial Implementation in Reporting

90. We noted that the MTR requires the reporting of the financial implementation of the programmes at mid-term under the section, Summary of Financial Implementation. For programmes to accomplish this section, the PRP designed the financial monitoring reports. In providing inputs to the Summary, the programmes were required to consider: (a) major financial implementation issues against approved PB and funds available for the programme area for the major office and the programme area as a whole; (b) financial implementation issues affecting programme delivery; and (c) efficiency measures implemented.

91. Our examination of the financial monitoring reports showed that these were based on projected implementation as at 31 December 2014, which was the end of the first year of the biennium, the inclusive date of the MTR. Percentages of the projected implementation against the revised budget, the approved budget, and funds available were likewise presented but the instructions in the MTR template did not clearly specify the percentages to be used by the programmes in presenting their financial implementation.

92. Management informed us that the available information at the starting point of the MTR exercise was based on latest available financial data. As the end year financial closure information is available with a couple of months of delay, therefore projected implementation data was used and then was replaced at a more advanced stage of the exercise (i.e. March 2015) with the actual end year closure data when made available.

93. **We recommended that the PRP enhance the MTR template by explicitly stating in a Guidance Note on the MTR or in the template itself, the instructions on the financial implementation data to be used for reporting; and ensure the use of actual financial data as at 31 December for reporting in the MTR across Categories.**

Quality analysis, review and reporting on programme results

94. We observed progress in monitoring and reporting on the implementation of the PB through the guidance and tools provided by the PRP but there remain areas for improvement, one of which is the quality of analysis, review and reporting on the progress towards the planned results and how Organization outputs were contributing to the outcomes.

95. Results-based reporting requires the generation of information and the related analysis of progress towards results using performance measures, and the shift in thinking in terms of results. As the primary decision base for future Programme actions, the MTR must provide the information, analyses, and other inputs required from the Programmes to provide for an objective and reliable assessment of the Organization's progress towards its planned results. It was acknowledged by the PRP and some Programmes that since it was the first time the Organization was reporting on results-based on the new results chain, there is the need to further enhance capacity in the areas of RBM, analysis, review and reporting on results.

96. **We recommended that the PRP collaborate with the HRD in identifying and providing appropriate capacity building and learning initiatives across Programmes to strengthen analysis, review and reporting on results.**

2.1.5 Programme Workplan Monitoring

Reporting of workplan Top Tasks status and Progress status

97. The defined procedures in PRP.SOP.II.012 require that monitoring of activities (sub-tasks), products and services (top tasks) and workplans involves review by Task Managers of technical progress, financial implementation, progress and task statuses of all components of the workplan. This activity is done as part of ad hoc monitoring. Based on this review, the Task Manager then inputs the monitoring comments, updates and submits the task status (Not started, In progress, Completed, On-hold) and progress status (On track, At risk, In trouble) for the activities and products for which they are responsible.

98. Data extracted from GSM showed that there were tasks with the task status of “Not started” but the progress status was “On track”. We also noted tasks with the status of “Not started” but were already with encumbrances and expenditures.

99. The PRP confirmed that “Not started” and “On track” were actually system defaults for “Task status” and “Progress status”, respectively. We noted, however, that while these statuses were system defaults, they became inappropriate once activities were undertaken and programme deliveries were actually accounted for the report.

100. We also observed that there were top tasks with task status of “In progress” and progress status of “On track” but the task status of all the sub-tasks under it was “Not started” while the Progress status was “On track”. We determined that if a task had not been started, its implementation could not be on track since no deliveries could be made as basis for stating so. In like manner, the top task implementation could not be “in progress” and “on track” when all related sub-tasks had not been started. As to the Progress Date, we noted that some of the top tasks or sub-tasks had not been updated by some departments/units implementing the projects for Categories 1 and 5.

101. We emphasize that all products and services defined in the workplans contribute materially to the achievement of programme results. The integrity of information made as basis for programme implementation decisions has to be upheld since the programmes’ progress are products of self-assessments. Therefore, the decision base made for programme tasks status must, at the minimum, be complete and updated.

102. These observations were reported in our previous audit and the same conditions observed now raise a concern that controls to monitor data in the GSM are not working effectively. While programme managers regard GSM as not a programme management tool, the data in the system still need to be kept accurate and informative.

103. We recommended that programme managers/responsible officers for Categories 1 and 5 enhance their monitoring activities on the task status and progress in each workplan to ensure that data appearing in the GSM reflect the programmes’ reality at any given period.

Encumbrances and expenditures in excess of or without Award Budgets

104. We observed that during workplan implementation, it is necessary to review the related financial transactions including encumbrances and expenditures, and to correct any error in the encumbrances, expenditures, and available funds as well as the correction of PTAE0 charges. Expenditures are authorized up to the award budget.

105. Our review of data from GSM, however, showed 23 top tasks for Categories 1 and 5 with encumbrances and expenditures beyond and without the award budgets. There was also a top task without planned costs and award budget but with encumbrances and expenditures. Presented in Tables A and B below are summarized information relating to expenditures in excess of award budgets and encumbrances/expenditures that have no award budgets, respectively.

Table A: Encumbrances and Expenditures in excess of Award Budgets at the Task Level for Categories 1 and 5 Programmes (US\$)

Programme	Planned Cost (a)	Award Budget (b)	Encumbrances and Expenditure (c)	Available Balance (b-c)
1.01	9,915,127.98	5,013,961.00	6,367,700.44	(1,353,739.44)
1.02	9,910,092.72	5,856,314.00	6,104,378.15	(248,064.15)
1.03	434,487.00	394,603.00	399,378.59	(4,775.59)
1.04	3,016,810.00	1,531,251.00	1,791,693.76	(260,442.76)
1.05	4,811,250.00	3,117,670.00	3,617,995.71	(500,325.71)
5.01	4,905,885.42	2,788,732.00	2,818,521.23	(29,789.23)
5.03	100,850.00	97,541.00	112,670.76	(15,129.76)
5.04	1,067,000.00	365,134.00	701,866.00	(148,782.17)
5.05	5,582,417.00	2,872,514.00	3,173,809.00	(301,295.00)
5.06	1,863,885.42	954,614.00	981,074.17	(26,460.17)

Table B: Encumbrances and Expenditures without Award Budgets for Categories 1 and 5 Programmes (US\$)

Programme	Planned Cost	Award Budget	Encumbrances and Expenditure
1.01	392,490.00	0	318,779.02
1.04	382,000.00	0	144,886.00
5.01	2,300,000.00	0	14,139.43
5.03	1,000.00	0	452.83
5.05	1,050,000.00	0	1,231,232.19
5.06	4,208,750.00	0	73,819.04

106. We were informed that GSM does not block expenditures to be processed if the award budget is sufficient at the work plan level but not at the task level. The system validates that the total award budget of the work plan being revised is within the total planned cost of the work plan so that if the total award budget exceeds planned cost at the project level, request for revision will fail.

107. We recognize the fact that planned cost and award budgets may need to be revised as circumstances change. We emphasize, however, that any movement of funds from one task/project to another might affect the achievement of the deliverables of each of the tasks, especially for those activities where budget/funding had been reduced. Further, the decision of project managers to move funds from one activity to another have the risk that awards might be applied to tasks that are not

appropriate for the agreement with the donor or for the defined use of the source of funds. The recurring deficiencies we noted in the workplans are supposed to have been addressed with more effective and regular monitoring of the workplans as required.

108. We recommended that programme managers/responsible officers ensure that fiscal and budgetary figures are brought in agreement, particularly towards the start of periodic assessments so that these data can have a higher degree of correlation to reported accomplishments.

2.2 Human Resource Management

109. Human resource management provides the needed impetus in the integration of the Organization's operations and strategies across all organizational levels and in widely dispersed cultures, context and outputs. The combination of effective policies, structure and culture reinforces favourable conditions that drive excellence in managing the human capital in the Organization. As the Organization sets off to reform the managing of its human resource through its revised Human Resource Strategy, it is our assertion that the change brought about by the new Strategy and the related complexities of the Organization's biggest investment deserve better controlling.

2.2.1 Positive developments in Human Resource Management

110. We recognize the adoption of the revised HR Strategy which is aligned with the ongoing WHO reform. Composed of two streams, the Strategy has, for one stream, a set of three pillars that establishes the foundation for: (a) attracting talent; (b) managing this talent; and (c) providing for an enabling work environment. The other stream considers four cross-cutting principles comprised of gender balance, diversity, collaboration and accountability. The two-phased implementation of the revised HR Strategy commences with the design and construction phase which is slated to be delivered from 2013 to 2015; and culminates with the implementation phase that is planned for the period 2016 to 2020.

111. We further recognize and commend the Human Resource Department (HRD) for the milestones achieved in the pursuit of the Strategy, particularly along its three pillars and in consideration of the cross-cutting principles. Worth highlighting are the HRDs advancements in the preliminary works towards adopting the new recruitment system and improved position descriptions and the institutionalization of Heads of WHO Offices (HWOs) selection process.

112. In terms of talent and career management, we underscore HRD's significant work on the exercise on Organization-wide succession planning, the enhancements made on the ePMDS+, the promulgation of the Corporate Framework for Learning and Development as well as the roll-out of WHO's learning tool, the iLearn.

113. Aligned to our audit objective to further enhance controls and accountability in the area of human resource management within the Organization, we identified improvement opportunities for WHO to consider. These are discussed in the succeeding paragraphs:

2.2.2 Governance and Change Management in HR

Formal change management strategy in the HR Strategy implementation

114. For governance to work, organizations must have effective internal governance policies and procedures and the necessary safeguards that address process weaknesses. These will depend on how processes are designed, how roles and responsibilities are delegated and how protocols are established. The complexity of HR governance is made more pronounced when a change or reform is introduced.

115. In the implementation of the HR Strategy, we noted that there was no formal change management strategy that would provide support to actualize the change. While we recognize that HRD performs and delivers its duties notwithstanding the constraints such as resource unavailability, there still remains a need for well-crafted and working systems and procedures for better change management. The initiatives continue to undergo changes even during their implementation and therefore, any impediments to successful adaption to change need to be methodically and systematically managed.

116. We recommended that WHO apply a formal change management strategy and actions in the implementation of the Revised HR Strategy to ensure that the planned “change” including risks and resistance are well-controlled.

Implementation Plan for the HR Strategy

117. Changes to strategies, plans and outputs arise during implementation. Inevitably, affected process and information must demonstrate the changes and pertinent approvals or authority and these have to be documented. A good Action/Implementation Plan operationalizes the Strategy by outlining the process or steps to achieve its goals, identifying responsibilities and accountability for results and the agreed commitment.

118. The phased implementation of the revised HR Strategy from 2013 to 2020 is guided by an action plan based on the updates on recommendations during the 12th Global Staff/Management Council (GSMC) meeting in October 2013. The said action plan also covers the actions expected for 2014-2015 based on the recommendations.

119. Our examination of the Action Plan showed that it still needs refinements as to completeness of information with regard to what has to be done, when/how it should be done, who should do it, what are the resources needed, how progress would be monitored, and how results would be measured. As the main tool used in operationalizing strategies, the Action Plan is a critical document that must contain the needed information to make informed decisions. An overall implementation plan for the Strategy, from which a two-year or a multi-year plan is to be culled, is necessary to provide an overview of the implementation of the Strategy. In its absence, progress tracking and decision making will remain a challenge.

120. We recommended that WHO develop an Action/Implementation Plan for the HR Strategy to facilitate implementation, monitoring and measurement of results, and to establish accountability for results thereby ably supporting ensuing decisions moving forward.

Well-defined governance structure implementation of the HR Strategy

121. The implementation of the HR Strategy is a shared responsibility among the HRD, Management and staff. The successful implementation of the Strategy depends on an HR function that has the capacity and capability to support Management and staff to contribute to the overall success of the WHO Reform. The implementation is critical due to the multi-level structure of the Organization.

122. We observed that there are no formal governance arrangements for the implementation of each of the initiatives under the Strategy. In case of succession planning, data from the major offices on retirements, decisions on positions, and actions on vacated positions have to be made available with HRD for informed decision on the initiative, and monitoring and reporting on the progress. While the initiative aims for global implementation, there is no one at HQ responsible for facilitating and monitoring its global deliveries. The linkages, collaboration and reporting lines are also determined to be not well-defined.

123. Since the Strategy's implementation involves the participation and commitment of personnel from all levels of the Organization globally, it is paramount that the roles, responsibility and accountability of each player or enabler are defined to help ensure the success of the Strategy, thus, the need to concretely establish responsibilities and accountabilities among process owners and key players for efficient and effective management and monitoring of the Strategy's overall implementation.

124. **We recommended that WHO: a) draw for consideration of the appropriate body/office, a sound and robust governance arrangement for the HR Strategy that define, among others, the roles and responsibilities of and collaboration among enablers, data requirements, and the monitoring and reporting linkages to ensure proper implementation and monitoring of the HR Strategy; b) outline how HR Strategy collaboration relationships will be governed including decision-making process, final responsibility for decisions, delegation of authority with criteria and to whom, and the mechanisms to be put in place to ensure performance of accountabilities by all enablers; and c) craft and implement a mechanism for reporting on accountabilities on the HR Strategy and for providing linkages to programme and performance management.**

Comprehensive identification of risks

125. The revised HR Strategy recognizes inherent risks in its implementation such as the lack of resources to mobilize the different HR initiatives, inadequacies of current systems and tools, lack of commitment to its implementation from all enablers, changing priorities, and the need to manage expectations. With the recognized risks, HRD therefore needs to have effective mitigating actions to manage them.

126. We observed that while the implementation of each initiative is expected to be threatened by several risks, only one risk and response action was identified for each of the initiatives. This provides an incomplete picture of the risk profile of every initiative even at the level of the Strategy. Insufficient risk information offers lesser guarantee that results can be achieved at the timelines set which eventually impact on the delivery of the expected results of the Strategy.

127. **We recommended that WHO identify the HR Strategy implementation risks in a comprehensive manner and formally document these for every initiative of the Strategy to ensure appropriate application of mitigation actions.**

2.2.3 Recruitment

Availability of selection panel during recruitment process

128. From our review of staff selected/hired in 2014 and its related documents, we noticed that 55% of the actual selection processes in the hiring of staff undertaken from 15 March 2014 were compliant with the target set in the harmonized selection process. This was only 10% less than the target of 65% by end of December 2014. Taking into consideration the lead time for the selection process which started in November 2014 and comparing it with the previous selection process performance, the result is laudable.

129. We noted, however, that there were constraints in terms of the availability of the Hiring Manager, the Selection Panel and other parties who take part in the selection process within a defined timeframe. This is usually experienced when the staff members concerned have competing priorities. Delay in the selection process was also observed when Hiring Managers took time to return the documents requiring their decision/approval.

130. We emphasize that the availability of the Hiring Manager, the Selection Panel and other parties who take part in the selection process is imperative to respond to the timeline prescribed in the recruitment process. To address the need, the functions of all the members of the Selection Panel in relation to recruitment has to be highlighted as critical and therefore, the members' cooperation and availability has to be given definite time allotments so that the related protraction in the hiring process is addressed.

131. We recommended that HRD engage closely with the members of the Selection Panel, the Hiring Units and the recruitment teams to determine optimal timing in the conduct of technical and competency assessments and ensure that the agreed time periods are adhered to, so that further protractions in the recruitment and selection processes are mitigated.

Conduct of Reference Check in the recruitment process

132. We noted in the review of selection process that some requests for reference checks were conducted late in the process and almost simultaneous with the date of approval by the decision maker of the recommendation by the Selection Panel. The submitted list of completed selection process at the Headquarters also showed other reference requests made after the approval of the selection report by the decision maker.

133. From a total of 99 applicants subjected to the harmonized selection process for the period March to December 2014, we observed 15 instances where reference checks were made after the recruitment recommendations were approved by the decision-maker. Late reference checks can pose setbacks in the selection process as there were confirmed cases of negative feedbacks that could influence decisions made or even delay the whole recruitment process.

134. Reference checking ensures that the Organization recruits and selects the most qualified person for the vacancy. By conducting reference checks at an appropriate time, the Organization can avoid costs associated with failed probation periods and poor performance, which can impact on the delivery of service to stakeholders and ruin the image or reputation of the Organization in general.

135. **We recommended that WHO enhance further its monitoring of reference checking activities to ensure that this is done at the earlier stage of the recruitment process to mitigate the risk of prolonged recruitment turnarounds.**

Involvement of HRD in the selection process for temporary staff

136. We noted that in the selection process of temporary staff requiring vacancy notice issuance, the crucial activities were basically lodged with the hiring department. The hiring manager assesses candidates through what is perceived as the most appropriate means. At the minimum, interviews were conducted with shortlisted candidates (by telephone or video) and written tests may also be used. This process is completely driven by the hiring department, a control that we consider as not the best design.

137. In our analysis of the selection process concerning temporary appointments of more than six months, we determined that a staff member, on a temporary employment status previously performing the same functions, applying for fixed term appointment had a better chance and probability of being selected for the fixed-term position. This is owing to the competency that the incumbent had built over the period of his/her incumbency as a staff member occupying a temporary position. Inadvertently, this hiring route has a direct effect over gender parity and geographical balance requirements in the selection and hiring of fixed-term staff. By design, the hiring policy in question does not support the very strategy that the HRD espouses and therefore has to be re-structured.

138. The HRD asserted, and we agreed, that better control is affirmed if HRD were to be involved in discussions with the hiring managers on: a) the short listing of candidates, to ensure wide geographical diversity in temporary appointments, especially nationals of developing countries; and b) the written test and interview questions to guide and direct the recruitment process thereby ensuring order and transparency. Composition of the Selection Panel other than the members of the hiring unit might also be considered in the recruitment for temporary positions.

139. **We recommended that WHO through the HRD vigorously engage with the hiring departments responsible for the recruitment of temporary staff members and ensure that the applicable hiring policy is reconciled with the overall HR Strategy, thereby ensuring that transparency, gender parity and geographical representation requirements are effectively met.**

Optimal utilization of the HR Tracking Tool to further improve recruitment process

140. One of the many benefits of the HR tracking system is analyzing and coordinating recruitment efforts – managing the conceptual structure known as human capital. The tool is typically maintained for data collation, retrieval, statistics and reporting processes. We noted that the tool facilitates the distribution of the work on selections between the HR Officers and Assistants.

141. Our walkthrough of the HR tracking tool, however, demonstrated its big potential to contain additional critical information that corresponds to recruitment requirements, e.g., automatic calculation of the duration of a recruitment process, reason for vacancy, time of initiation of the recruitment process and information on status of position, gender and geographical representation.

142. The HRD agreed that there are indeed improvements that can be done to optimize the use of the HR tracking tool. The HRD deserves no less than better information as bases for its decisions and WHO Management has to support this.

143. We recommended that WHO actively engage in the tracking tool transformation and ensure that it contains features that will facilitate and support complete monitoring, reporting and evaluation of the recruitment process.

2.2.4 Workforce Planning

Adoption of a structured Workforce Planning model required by WHA

144. Workforce planning is one of the best strategies for improving organizational operations as it drives an organization to plan on how to align its human resources with its goals and objectives. It is a process of identifying an organization's human resource requirements and developing a plan to ensure that those requirements are met.

145. We noted that a workforce planning model was not adopted and used to develop the Strategy and guide its implementation. Instead, a working document which according to HRD is the structure of the strategy was provided.

146. We also determined that the development of a skills inventory previously noted in A65/5 dated 25 April 2012 had not been developed to date. We also observed that the staffing gap analysis has not yet been conducted albeit planned at a later stage, ideally when the mobility scheme is implemented globally, and the tool is fully functional. Further, we observed that the workforce risk assessment has not also been conducted to provide inputs to workforce planning and the development of the Strategy.

147. We were informed that the recommendations on the HR Strategy initiatives as a result of the 12th GSMC meeting on 8-10 October 2013 were already part of the implementation plan. We determined, however, that such could not be taken as the implementation plan for the Strategy but as inputs to the implementation process.

148. The decentralized environment and unpredictable funding scenario within the Organization all the more necessitates workforce planning. The initial processes necessary to formulate strategies with a well-developed plan and the needed tools deserve full Management support.

149. We recommended that WHO: a) develop a workforce planning model detailing the processes to be employed for workforce planning as called for by the WHA; and b) develop in a timely manner appropriate tools such as the skills inventory, staffing and skills gap analyses, and workforce risk assessment and utilize the same to identify the appropriate strategies to close gaps and address risks;

150. We further recommended that WHO: a) adopt a structured implementation planning process which takes into consideration governance and accountability structures, activities, deliverables and timelines, outcomes/results, performance indicators, risks; and monitoring of and reporting on implementation progress, and accountabilities; and b) derive an implementation/action plan from the structured implementation planning process that should include mechanisms on governance, risk management, monitoring and reporting on deliveries for a more definitive guidance.

2.2.5 Succession Planning

Succession planning policy and plan

151. Identification of the critical positions to ensure the continuous delivery of services and the attainment of organizational goals and objectives, and of the competencies required for the positions are key processes in succession planning. For succession planning to take root in any organization, it needs to be guided by a policy that will provide the framework within which an organization will work, guiding what is to be done and how to do it.

152. The succession planning process for retirees at HQ was initiated in November 2013 and was expanded to the Regions; however, we did not find both the succession planning policy and plan among the planned outputs of the succession planning initiative. Efforts on succession planning were already started but without the guidance of a policy and plan. HRD confirmed the non-existence of both the succession policy and plan.

153. From the report provided to us by HRD on the succession planning at HQ entitled, “Succession Planning across WHO”, and the HRD succession planning table, we noted significant areas of concern as follows:

- a. Of the 112 positions already vacated and to be vacated from 2012-2014, 78 or 69.64% are pivot positions or those critical to the achievement of the Organization’s mandate, while 77 or 65.81% of the 117 positions to be vacated from 2015-2016 are also pivot positions;
- b. Of the 75 positions vacated by retirees in 2014 and planned to be advertised with the same or revised Position Descriptions (PDs), and to be filled through lateral transfer, secondment or inter-agency loan, only six positions had been filled, two have completed selection process, and two are on-going recruitment process;
- c. The terms of office of 17 retirees had been extended beyond their mandatory retirement age for a period of six months to more than one year, with 12 occupying pivot positions and five holding enabling positions;
- e. Of the 117 retiring employees from 2015-2016, 44 staff members are reaching mandatory retirement age or the end of the extension of their terms of office in the next six months or until May 2015, including nine staff members whose terms of office have been extended beyond their mandatory retirement age; and
- f. 469 staff members from all major offices holding P2 to P6, and ungraded positions are already in the age bracket of 53-57 reflective of an aging workforce at higher level positions.

154. We also observed that the selection process had not been initiated within six months before foreseen retirements for those positions not requiring revision of PDs. For those necessitating revision of PDs, no timeline was provided for initiation of the selection process, thus, providing an opportunity for protracted actions.

155. **We recommended that WHO formulate a succession planning policy and plan, implement the succession strategy and mainstream the same in the ongoing workforce planning exercise with particular emphasis on: a) projecting vacancies and identifying potential next-in-line successors; b) identifying leadership development needs and taking steps to address those needs**

through training, coaching and mentoring for employees' career growth and advancement; and c) building and populating a pool of talents to ensure availability of employees to fill vacancies as they arise.

Absence of strategies and a formal plan for knowledge transfer

156. When an organization's most experienced and knowledgeable employees exit the Organization, they take with them the organization's institutional knowledge or history. When employees who leave are highly skilled and possess knowledge not readily replaceable, an organization suffers. This makes knowledge transfer a critical aspect of succession planning or a top priority for the Organization as it is basically knowledge-based.

157. We noted that the Organization had actually recognized the impact of the lack of succession planning on the achievement of its mandate, thus, the revised HR Strategy advocates succession planning. It made no reference, however, to knowledge transfer strategies. Consequently, no explicit formal plan to retain, acquire and transfer knowledge among staff members of the Organization, especially for highly skilled positions, was prepared.

158. HRD informed us that there are currently no knowledge transfer strategies as succession planning is a recently-initiated exercise. Knowledge transfer is the responsibility of the Director of each unit who is in the position to decide on when and how to protect and retain institutional memory. However, this set-up is not fully supportive of knowledge transfer as there are no specific strategies and plan to which senior Management would commit to.

159. **We recommended that HRD craft knowledge transfer strategies based on best practices and develop a plan to implement them to create a pool of new leaders going forward.**

2.2.6 Performance Management

Alignment of the revised and enhanced ePMDS+ with the proposed Performance Management and Development Framework (PMDf)

160. The PMDF defines the PMD core principles, roles and responsibilities, performance management cycle, and ePMDS tools. It asserts that performance management in the revised HR Strategy engages both the managers and staff members to achieve individual and team objectives. One of its core principles is the alignment of individual and team objectives with the organizational/departmental/cluster/unit objectives, thereby raising staff motivation and morale.

161. We noted that the Team Objective is now made optional in the revised enhanced ePMDS+. The possibility of having up to two additional Optional Team Objectives for cross-functional teams has been removed. Staff member's contribution to the Team Objectives is not taken into account in the Overall Rating. This arrangement does not enable the assessment of the relationship between the staff member's objectives with the team/unit/cluster/department's objectives. This also broke the vertical chain of objectives that contribute to the overall goal of the Organization. Since the staff member's contribution to the Team Objectives is not rated, it does not make the staff member accountable for ensuring that the said objectives are achieved.

162. We further observed that while the revised enhanced ePMDS+ form includes the formulation of SMART objectives, it does not specifically require the statement of the activities to be undertaken by staff members to achieve the defined objectives. Without the statement of a staff member's activities

in relation to his/her objectives, there is no means to evaluate how the staff member will be able to achieve the objectives defined and to assess the relevance of the activities to the objectives.

163. We recommended that HRD: a) incorporate clear requirements in the ePMDS+ for the identification of the activities, outputs, outcomes, and performance indicators under each objective of staff members to show the linkage of the individual staff member's responsibilities and accountabilities to the programme which they support and to the higher level objectives; and b) make the Team Objective a mandatory requirement in the ePMDS+ and the inclusion of the same in the rating of staff members.

2.2.7 Learning and Development

Quality assurance framework for iLearn

164. *iLearn* is designed to effectively support the Corporate Framework for Learning and Development (CFLD) by improving the administration and timely delivery of centralized and diversified training; facilitating the use of online social learning; and, providing appropriate monitoring and reporting tools. It enables learners to search an online course catalogue, enroll in courses, complete online quizzes, and track their learning.

165. HRD informed us that the trainings in *iLearn* were both developed in-house and purchased off the shelf. The considerations in evaluating and selecting the trainings bought off-the-shelf for uploading in *iLearn* were the drafted key points/criteria and checklist. Thus, these were not based on the results of training needs assessment, skills gap analysis, performance appraisal, and identified mandatory trainings.

166. We noted weaknesses of the *iLearn* architecture in the extent of the analysis in defining learning needs; screening and retention or the complete evaluation of the training modules; measurement of the impact of the *eLearning* course; and communication flows and reporting structure; and learning pathways, among others.

167. With the many policies, plans, guidelines and even the checklist that HRD crafted for *e-learning* to strengthen the *iLearn* architecture, there is an inherent need for a controlling mechanism that will support in averting lapses in the learning programmes and delivery of services to its clientele and further improve on its quality, if not sustaining it. A quality management focused on providing confidence that quality requirements will be fulfilled with the products and services *iLearn* provides and an affirmation of commitment to cultivating quality in learning. A quality management mechanism therefore ensures that *iLearn* products are screened, monitored and evaluated in accordance with the organizational learning objectives, thus, fortifying the architectural blocks of *iLearn*.

168. We recommended that WHO develop a quality assurance framework for *iLearn* that contains systematic measurement processes, comparison with a standard, monitoring of processes and an associated feedback loop that confers achievement of organizational learning objectives.

2.3 Risk Management

169. We reviewed the implementation of WHO's risk management on an annual basis since we consider risk it as an essential element of good governance and accountability. It creates value by

increasing stakeholders' confidence, eliminates "siloed" operations and enhances risk mitigation activities. It is our goal to assist WHO in embedding risk management in its operations and to actually see it work. However, CRE informed us to reconsider the annual review process to allow Management enough time to implement current planned activities. We will consider this request in 2015 audit.

170. We recognize the importance that the Organization places on risk management with the establishment of the Office of Compliance, Risk Management and Ethics (CRE) in October 2013. The creation of the office will facilitate a more Organization-wide approach to risk management. Hence, a robust risk management process is expected.

171. We further recognize the current "incremental steps" approach being undertaken by the CRE in embedding risk management into the processes and decisions of the Organization. We commend CRE for this work in progress on risk management. With this approach, quick wins and solutions will easily be made and the flexibility of implementation allows the CRE to build risk management as to importance and criticality. Such steps are articulated in a Transitional Risk Management Framework.

172. Embedding risk management across organizational strategies and programmes is, however, dependent upon the strength of related policies and guidance made available. While risk management is owned by everyone in the organization, a coherent methodology to manage risks and vulnerabilities within it is critical.

173. We noted that WHO's draft Transition Risk Management Framework details key terms, risk management methodology, roles and responsibilities, how to embed risk management in operations, escalation processes, reporting, communications and awareness-raising. The document further describes the inter-relationship of various frameworks such as the accountability and internal control with the risk management framework. We further observed that the transition framework details the development of WHO ERM approach through an evaluation of existing practices including the formulation of a common risk language, risk reporting and provision of technical assistance across the Organization, including training.

174. Consequently, as concrete steps in adopting risk management are now being undertaken by the CRE, we determined several opportunities that we considered as vital in the subsequent finalization of the WHO Risk Management Framework, such as: a) aligning the textual description of risk management and internal control framework with the graphical presentation; b) setting risk appetite; c) following a definite structure for risk model/categories; and d) including a process to develop risk indicators built from past experiences to identify root cause events that can lead to the happening of the risk events.

175. A Framework that will control the embedding of risk management within the operational processes of the Organization should have the structure and design that guarantee effective implementation. The quality of risk management within an entity will only be as good as the framework itself, which presupposes a confluence of processes, standards and policies for it to work as planned.

176. We recommended that WHO, through CRE, continue its work in embedding risk management within the Organization and consider enhancing its transitional risk management framework, through: a) engagement with the GMG consultant to review the risk management approach as it relates to accountability framework; b) review of the existing risk management approach and benchmarking with existing standards; c) review and revision of the existing risk categories with clearer definition and more aligned structure; d) preparation of the initial WHO

risk model based on the results of the current risk management exercise and the accompanying Risk Lexicon; and inclusion of a section on Risk Indicators and its Use in the Methodology Section of the Risk Management Framework.

3. Regional and Country Office Operations

177. During the year, we visited two regional offices, namely, the WHO Regional Office for the Eastern Mediterranean (EMRO) and the WHO Regional Office for the Western Pacific (WPRO) and two country offices, namely, the WHO Country Office in Pakistan and the WHO Country Office in Vietnam. The main objectives of the visit were to review their operations and financial control as well as their compliance with WHO regulations, rules and policies. The Management Letters we issued to the heads of these offices discussed in detail the improvement opportunities and recommendations to address them, the highlights of which are presented below:

3.1 WHO Regional Office for the Eastern Mediterranean (EMRO)

178. In programme management, we highlighted the need to improve the reliability of the reporting of the results in the Midterm Review (MTR), as necessitated by the unreported planned costs and award budgets, inconsistent task status, progress status and financial implementation, and inadequate or lack of progress comments. Investing on capacity building activities could further improve EMRO's capability towards a more accurate and timely reporting on the status of programme implementation.

179. In asset and inventory management, we observed weaknesses as reflected in the delays in the settlement of differences noted in the physical verification of assets and inventories, and the absence of a region-specific instruction on the disposal of inventory. Establishment of a feedback mechanism on warehousing would provide the status and accountability on the exceptions noted on a timely basis for decision making purposes. Meanwhile, a region-specific instruction on the disposal of inventories with appropriate consideration of related country laws and regulations will ensure efficiency, economy and harmony in the disposal processes.

180. On procurement, we proposed for the consolidation of the goods and services requirements in the implementation of all programmes/projects of the region into an Annual Procurement Plan for efficient management and carrying out of its procurement activities.

181. In the area of human resource management, we noted an improvement opportunity particularly in the crafting of ePMDS objectives vis-à-vis the SMART criteria. The conduct of trainings for an enhanced appreciation of and more clarified platform used in performance evaluation could facilitate the learning process.

182. On travel, we noted the relatively high rate of non-compliance with the 10-day rule in the approval of travel requests. We advocated observance by the Budget Centres of the Regional Director's Circular No. 1015 Rev. 3 for an efficient implementation of travel policy. Meanwhile, the system configuration error in the GSM warrants the intervention of the HQ and GSC to address the inconsistent reporting of the status of travel claims.

183. Finally, to facilitate the implementation of a robust risk management in the Organization, we suggested EMRO to continue liaising with CRE HQ and seek further clarification on the role of the Compliance Risk Management Officer or the regional office in the review, validation, analysis, mitigation and monitoring of risks and risk management processes. The risk register, being a living document needs to be continuously updated to maximize its use as a tool in organizational learning,

decision-making, and subsequent planning. Therefore, the roll-out of risk management procedures pursuant to the Risk Management framework, being still at its development stage, needs close monitoring and should accordingly be enhanced and updated based on lessons learnt.

184. With EMRO's commitment to accountability and transparency and its acceptance of the need to change, the region is already on its way towards a much improved operations with the adoption of the necessary changes advocated in this audit.

185. We appreciate Management's immediate response and positive action on the recommended measures which they communicated to us on 5 April 2015, in reply to our Management Letter.

3.2 WHO Regional Office for the Western Pacific (WPRO)

186. In cash and asset management, we recognize the immediate action made by WPRO in the misappropriation case committed by a staff member in one country office, in recovering the misappropriated funds, and in determining the final amount of loss. We likewise recognize WPRO's effort in ensuring that controls over the receipt, recording and disposal assets and we further recommended that continues monitoring should be strictly observed to ensure timely, periodic and accurate reconciliation of the balances of the fixed assets register with the Finance trial balance.

187. In programme management, WPRO needs to coordinate with HQ in establishing baselines, indicators and targets to serve as bases for measuring the outputs in terms of achieving the regional office deliverables. WPRO also needs to undertake steps to integrate risk management into existing management processes such as planning, budgeting and performance management and evaluation specific to the programmes and maintain the linkage to ensure efficient management control of project activities and related funds.

188. As regards awards management, efforts in eExpenditures batching were continually being undertaken by WPRO to correct the recording or recovery of the amounts temporarily borrowed. We encouraged them to ensure that expenses/charges transferred through expenditure batches are in conformity with the award purpose and should be made as soon as funding is available and devising a system to keep track of all temporary charges to an award to ensure accurate adjustments/corrections when the appropriate award has available funding already.

189. In the procurement of goods, we noted the need for WPRO to strengthen its monitoring and control by ensuring that prices and specifications are the same for similar items procured and to consider acquisition planning as provided in the WHO eManual so that consolidation of purchases can be done and subjected to prior approval in accordance with the levels of authority.

190. In the procurement of services, we noted that the selection process for consultants was not strictly complied with, thus, there is a need to strengthen the selection process by (a) making clear/explicit the comparison of the candidates and description of the reasons the selected consultant was chosen, (b) ensure the veracity of the information to avoid inconsistencies, and (c) document the consultation process conducted.

191. In Donor Reporting, there is a need for WPRO to be up-to-date in reporting to make the Reports Due to Donors informative and useful. We support their proposal to enhance the reporting system. We recommended that Management pursue/continue the proposal with due consideration of the necessary trainings of the users, in particular the awards managers, and among others, consider also the following: (a) updating the scheduled date of reporting in case of no-cost extension and/or award

amendments with new reporting requirements with the GSM; (b) ensuring the timely submission of reports to donors so that receipt of outstanding awards receivables could be facilitated specifically for awards the release of which is contingent to the rendition of reports and to maintain/enhance the Organization's corporate credibility and image as well as nurture a lasting relationship with donors; and (c) making the facilities of GSM an effective monitoring tool in donor reporting as well as a medium of communication across the Organization and as a measure and mode of monitoring performance.

192. In Direct Financial Cooperation (DFC), we advised Management to (a) strengthen further monitoring activities to include spot checks or field visits as risk response action in connection with risk identified as non-implementation of funds/loss of unimplemented resources; (b) continue the close monitoring of DFC status and monthly DFC reports and continue conducting regular follow-ups to enhance the timeliness of the submission of appropriate DFC reports; and (c) continue to use reimbursement as payment option in granting DFC in cases where there are still outstanding DFC reports.

193. In risk management, we recognize Management's efforts in identifying risks relating to procurement of services and DFC as part of the Organization-wide Risk Register. Mitigation strategies can now be instituted and we found the continued progress in the implementation of risk management in the regional office to be desirable. We requested Management to consider the following to ensure smooth implementation of risk management: (a) designate an officer to work as Compliance and Risk Management Focal Point for WPRO; (b) direct the risk owners to proactively identify the risks faced by their Budget Centers and to develop mitigation strategies to manage them; (c) observe the escalation process in the report of the Secretariat in the 133rd Session of the Executive Board to ensure that only the major risks are escalated to CRE, HQ; (d) maintain a Regional Risk Register which will be the repository of all risks identified, assessed and prioritized in the Region; and provide the process owners with the necessary trainings on risk management process.

194. With WPRO's commitment to accountability and transparency and its acceptance of the need to change, the region is already on its way towards a much improved operations with the adoption of the necessary changes advocated in this audit.

195. We appreciate Management's immediate response and positive action on the recommended measures which they communicated to us on 6 April 2015, in reply to our Management Letter.

3.3 WHO Country Office in Pakistan

196. In programme management, we saw the need to promote consistency in reporting on the status of programme implementation through regular updating of the task and progress statuses and enhancement of progress comments. Establishment of specific baselines, indicators and targets for the country office will facilitate the measurement of the CO's achievement of its deliverables while the maintenance of records of lessons learnt will support informed planning and management decisions.

197. We noted the mechanism adopted to address the perceived weakness in procuring partners for the implementation of programmes/projects through DFC. Mechanism was in place by ensuring that the issuance of DFCs to counterparts with overdue reports is subject to RD approval. Also, the implementation of this control mechanism is monitored through a monthly review of a statistical sample of new DFC contracts; the results of which are published in the monthly compliance dashboards made available to BC managers.

198. In cash management, we suggested for the enhancement of the reporting and review processes over the imprest returns by the CO and the regional office, respectively, to ensure that the policies governing Imprest cash accounts are faithfully complied with.

199. In the area of human resource management, there is a need to address the time gaps between the agreed due date and the actual completion date of the ePMDS.

200. In asset and inventory management, we see the need to improve the reporting of fixed assets and inventory. We put forward the completion of their physical verification and the reconciliation of related reports with appropriate consideration of the valuation benchmarks of fixed assets and inventory. Meanwhile, to strengthen the controls in safeguarding these resources, we recommended for the provision of insurance for the identified assets, if warranted.

201. On travel, we recognize the necessity of improving the overall supervisory controls to preclude issues on travel planning, submission, creation and approval of travel requests, and on the recovery of delinquent travels and overpayment of per diems. We also noted the need to enhance the GSM to allow accurate capture of all approved duty travels.

202. In procurement of goods and services, we advised Management to observe and comply with the applicable policies and procedures and the contractual documents and timelines required under the WHO e-Manual for Agreements for Performance of Work and Special Service Agreements, with emphasis on the efficient use of resources. We also highlighted the advantages of establishing a comprehensive annual procurement plan as a management tool to efficiently manage and carry out its procurement activities.

203. With regard to risk management, we proposed for the integration of risk management in the critical management processes of WCO Pakistan and to maintain a robust risk register in conformity with the requirement of EB 133/10 dated 17 May 2013.

204. In summary, WCO Pakistan through close collaboration with EMRO and its partners, and with consideration of the herein recommended improvement measures, has the capacity to contribute to the attainment of WHO's global objective in its country of jurisdiction.

205. We appreciate Management's immediate response and positive action on the recommended measures which they communicated to us on 2 April 2015, in reply to our Management Letter.

3.4 WHO Country Office in Vietnam

206. In programme management, we underscored the importance of applying country specific indicator performance measurement on a systematic basis as opposed to selected programmes to allow the deliverables to be monitored throughout implementation and subsequent evaluation; and to strengthen controls in validating and reviewing the inputs made by the Technical Officers since this will assess the progress in the attainment of the expected output thus ensuring information integrity and reliability in the reports generated from the Country Office. We further suggested that the Country Office consult with the decision makers in WPRO and HQ in developing strategies to address key issues in funding planned cost for core personnel positions in the Country Office.

207. In donor reporting, we encouraged the Country Office to ensure that collective efforts are made by the Technical Units in the preparation of reports in order to improve the timeliness of reporting to donors.

208. In asset and inventory management, we suggested for coordination with WPRO to amend the fixed assets register and inventory report for more accurate information on the status of these assets.

209. In procurement of services, there is a need to strengthen Management's review activities by requiring that all APWs are signed and dated by the contractual partner and ensuring that signed contracts matched with the due dates before the planned start date of activities, so that the timeliness and quality of expected outputs/deliverables are not compromised.

210. Finally, on travel, we recommended that Management continue to observe the 10-day rule in the approval of travel requests to preclude a repeat of the observed high incidence of non-compliance with the said rule that resulted in limited travel options for Management and in the inflexible use of its resources.

211. In summary, WCO Vietnam through close collaboration with WPRO and its partners, and with consideration of the herein recommended improvement measures, has the capacity to contribute to the attainment of WHO's global objective in its country of jurisdiction.

212. We appreciate Management's immediate response and positive action on the recommended measures which they communicated to us on 31 March 2015, in reply to our Management Letter.

213. We recommended that the heads of EMRO, WPRO, WCO Pakistan and WCO Vietnam consider the improvement opportunities noted to further strengthen internal control, and enhance transparency and accountability in their respective offices.

C. DISCLOSURES BY MANAGEMENT

214. **Write-off of Cash.** As reported by Management, a total of US\$ 189 687 was approved for write-off. Of this amount, US\$ 188 298 related to salary advance, rental advance, and missing pension contribution from former staff members where recovery was deemed impossible while, US\$ 1 389 pertained to VAT refund rejected by the Government of Nepal.

215. **Ex-gratia payment:** There was no ex-gratia payment reported in 2014.

216. **Frauds and Presumptive Frauds:** IOS reported instances of frauds or presumptive frauds in one regional office and five country offices. Cases involving potential procurement frauds included: (a) having a private/personal relationship with the owners of companies who are registered WHO suppliers; (b) not ensuring that suppliers actually delivered items that were purchased and paid for; (c) signing, without the relevant delegation of authority, an amendment to an existing contract; (d) ordering information technology equipment which was not subsequently recorded in the official inventory records and was for personal use; providing advance procurement information to the vendor, and soliciting and accepting personal favours; (f) obtaining false quotations for the purchase of computer laptops, screens, miscellaneous accessories, and an office printer; (g) not adhering to the requirements of a competitive bidding process in the procurement of conference services; and (h) using single-source procurement on a number of occasions without sufficient justification and receiving favours from a WHO appointed travel agency.

217. Other cases involved financial irregularities and serious managerial weaknesses such as: (a) discrepancies in leave recording and frequent absences from the duty station; (b) suspected misuse of imprest fund by making cheques payable to 'Cash' and forging the signature of the head of office on cheques; (c) use of WHO mobile telephone during unauthorized absence; (d) declaring an

inaccurate leave record as basis for entitlement to pay; and implementing a system for processing and recording both unused travel and Direct Financial Cooperation funds returned after the implementation of field activities, which was contrary to WHO procedures.

218. We noted that the Office of Internal Oversight Services had taken appropriate actions on these cases. We recognize the action/s taken by Management and we encourage them to address the breakdowns in controls and to be more vigilant in detecting and preventing potential fraud cases.

219. Finally, we find it very timely the publication of the new WHO whistleblowing and protection against retaliation policy on 6 March 2015. The policy will encourage internal whistleblowing without fear of retaliation and enable WHO to act early on behaviors that constitute significant risks to WHO operations and mandate.

D. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

220. We validated the implementation of External Audit Recommendations contained in prior years' audit reports. We noted that of the 31 recommendations, 13 or 42% have been implemented, 13 or 42% are still in progress of implementation, 4 or 13% were closed as these recommendations are covered by recent recommendations, while 1 or 3% was closed in view of Management representation that it is no longer feasible to implement. The status of the 13 recommendations which are in progress will be validated and reported in the next financial reporting period. **Annex A** presents the detailed analysis of the implementation of the recommendations.

221. We note the progress made by WHO in implementing the recommendations and encourage WHO to bring these to an early conclusion by preparing a workplan to fully implement all prior year's recommendations.

E. ACKNOWLEDGEMENT

222. We wish to express our appreciation for the cooperation and assistance extended to our staff by the Director-General, the Deputy and Assistant Directors-General, Regional Directors, HQ Directors, the Comptroller, Country Representatives and members of their staff during our audit.

223. We also wish to express our appreciation to the World Health Assembly for their support for and interest in our work.

**Commission on Audit
Republic of the Philippines
External Auditor**

8 April 2014
Quezon City, Philippines

ANNEX A

**STATUS OF IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS
(A64/30, A65/32, A66/34, and A67/45)**

No.	Recommendation	External Auditor's Validation
A67/45		
1.	<p><i>Direct Financial Cooperation (DFC)</i> Strengthen the capabilities of regional/country offices in conducting risk assessment and assurance activities relative to DFC and in implementing monitoring strategies. Likewise, reinforce the efforts of regional/country offices in improving timely submission of reports by counterparts. (Para. 46)</p>	<p>In progress We took note that policy formalization on DFC risk assessments as well as increasing assurance activities of DFC funded activities both during project implementation and post-facto is on-going. Two system enhancements have been requested by Management to further improve the workflow and uploading of DFC reports in GSM. There was also a reduction noted in the number of overdue DFC reports as at 31 December 2014 compared to previous financial period.</p>
2.	<p><i>Final Certified Financial Statements (FCFS)</i> Enjoin all relevant offices responsible for the preparation and release of Final Certified Financial Statements (FCFS) to Donors to improve the timeliness of reporting to donors. (Para. 50)</p>	<p>In progress We tested 31 FCFS released to donors in 2014 and noted that 10 were issued after their due dates. Management added that automated reminders will soon be sent to Award Managers and Award Administrators starting from three months before an FCFS is due to be sent to the donor which should further improve the timeliness of reporting. Moreover, monthly follow-up on outstanding reports are routinely made by ACT/FNM where awards have remaining balances.</p>
3.	<p><i>Global Service Centre (GSC)</i> Address the issues noted on the handling exceptions on purchase orders, data handling, documentation of transactions and events, and financial information and reporting, in order to improve the quality of data sources and the efficiency of system processes in the GSM. (Para. 53)</p>	<p>In progress We noted that work is progressing in GSC to strengthen controls, improve quality of data and the efficiency of processes. The implementation of nine out of 33 recommendations is still in progress.</p>

No.	Recommendation	External Auditor's Validation
4.	Accountability Framework Revise and redefine the Accountability Framework document in the early part of Biennium 2014-2015 and immediately operationalize it to reinforce the culture of accountability and transparency within the Organization. (Para. 58)	In progress Validation will be conducted once the Accountability Framework document is reported completed.
5.	Whistle Blower policy Enhance and update its Whistle Blower Policy and Procedure by benchmarking on the International Best Practices for Whistle Blower Policies. (Para. 61)	Implemented. The policy was published in the WHO intranet and is already in place.
6.	Asset Accountability policy Improve its Asset Accountability Policies by incorporating the following procedures: (i) criteria defining various circumstances surrounding asset loss; (ii) guidelines for documenting asset loss; and (iii) levels of administrative and fiscal responsibility for every type of circumstance identified as the cause of asset loss. (Para. 65)	In progress Policies are under reviewed and headquarters departments and Regional Offices to determine how best to incorporate in the eManual and where appropriate, the staff rules.
7.	Procurement governance Revisit its procurement governance to include policies and procedures on Strategic Procurement Planning, Green Procurement, Long-Term Agreements, End-user Feedback, Vendor Complaints and Grievances, and Vendor Sanctioning to enhance and reinforce its procurement system. (Para. 87)	In progress The procurement strategy is still to be presented to the WHA in May 2015.
8.	Performance Management Conduct performance reviews across all levels of the Organization to ensure achievement of objectives by encouraging all staff to comply with the ePMDS requirements, facilitate its completion within the required time frame, and formulate their Staff Objectives following the SMART model. (Para. 95)	Implemented The new ePMDS has been launched. The compliance rate to the new ePDMS was covered in the current audit.
9.	Reporting of results Improve its future reporting endeavours by reporting achievements in the period they relate for proper accountability. We further recommend that before achievements of prior biennium are included in the MTR, appropriate contextualization should be provided to ensure the appropriate use of information. (Para. 101)	Closed – updated in the current audit

No.	Recommendation	External Auditor's Validation
10.	Enterprise Risk Management Ensure that the ERM Framework is established and operationalized within 2014 to complement current advances in the establishment of the WHO Accountability and Internal Control Frameworks. (Para. 104)	Implemented This risk management is already being embedded across the organization. We however made a new observation on the design of the Framework. As an on-going theme for our audit, the corporate register review has to be undertaken soonest including the validation procedures done by the CRE.
11.	Internal Control Framework Implement the Internal Control Framework together with the developed tools in 2014 across all levels of the Organization including the field offices to achieve the long-term benefits of a strong internal control system. (Para. 110)	In progress We noted the action taken by Management to finalize the Internal Control Framework for implementation in 2015.
A66/34		
12.	Statement V – Comparison of Budget and Actual Amounts Coordinate with concerned departments/offices responsible for preparing and monitoring the Programme Budget presented in Statement V to devise a sound basis for expressing the approved biennial budget in annual terms. (Para. 39)	Closed – not implemented We took note of Management's explanations/ justifications on why they could not express the approved biennial budget in annual terms. Nonetheless, we still maintain that the true presentation of a comparable basis is the comparison of budget against the actual amounts (results of budget execution) for the same period.
13.	Update to WHO Emergency Standard Operating Procedures Include specific operating standards in the area of logistics in the ERF taking into account the accountability in managing resources and the risks involved in specific arrangements with suppliers and donors. (Para. 64.a)	In progress The update of the SOPs is planned for 2015.
14.	WHO Emergency Response Strategy and Framework Design strategies in stockpile deployment that maintain a balance among the <i>No Regrets Policy</i> , the expectations of stakeholders and the optimal inventory management to avoid occurrence of expired medicines. (Para. 64.b)	In progress We noted the work undertaken by Management to implement the recommendation. Validation will be undertaken once the required actions to address the recommendation are reported complete.
15.	Global Inventory Management System Develop one global inventory management system that will contain features common to all users and yet address the specific needs of each concerned department with due consideration to	In progress We noted that the development of the Global Inventory Management System is in progress. The system is an Oracle module and will be directly linked to

No.	Recommendation	External Auditor's Validation
	the requirements of financial reporting framework, and the nature of business of each concerned department in the design of the new system. (Para 76.a)	GSM. The user acceptance testing for the global inventory management system is planned for May to July 2014 with implementation for headquarters store rooms and warehouses from August 2015.
16.	Ensure that the new inventory management system is integrated with the GSM, or at least contains a system interface to ensure ease and coherence in financial reporting and consider its development as a top priority owing to the high degree of its exigency. (Para. 76.b)	
17.	ERM Framework and Related Activities Formalize, through a written policy, the adoption of the preferred and most optimal ERM Framework applicable to WHO in order to have a holistic approach to risk management. (Para. 87.a)	Implemented We took note of the implementation of this recommendation.
18.	Embed clear guidelines in the ERM Framework and provide essential details like activities with specific timelines and deliverables as well as feedback mechanism for all components of the risk management process. (Para. 87.b)	Implemented We took note of the implementation of this recommendation.
19.	Results-based Management Facilitate a concrete assessment of the needs of technical departments in programme management and planning to monitoring and reporting, and conduct a review of the systems and tools currently in use including GSM as part of the new results chain, and monitoring and assessment framework. (Para. 137)	Implemented We took note of the implementation of this recommendation.
19.	Human Resources Management Ensure that the implementation of its strategies/initiatives undergo a structured implementation planning process which takes into consideration: a. the governance and accountability structures b. specific activities, expected outcome/results, performance indicators, timelines and responsible personnel c. identification of resource requirements and constraints d. risk management e. monitoring of and reporting on implementation progress. (Para. 142)	Closed –updated in current audit.

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20.	Develop without delay the comprehensive harmonized recruitment policy and processes based on competency approach for global implementation across the Organization in order to ensure uniformity of recruitment processes. (Para. 146)	Implemented The harmonized recruitment policy was already completed. Review on the policies and procedures were already undertaken in the current audit.
21.	Evaluate the effectiveness of the recruitment strategy and its relevance to the prevailing situation in WHO in sustaining gender equity and equitable geographical representation. (Para. 157)	Implemented The harmonized recruitment policy is now made attuned to the concerns previously raised.
22.	Performance Management Development System Strengthen the monitoring of PDMS compliance by all staff are properly evaluated. (Para. 162)	Closed – covered by similar issue under recommendation No. 8 above
23.	WHO Regional Office for Africa Improve its financial and administrative controls and processes on imprest accounts, DFC activities, procurement including service contracts, inventory and asset management, duty travels, and donor reporting. (Para. 171)	In progress Improvement in the financial and administrative controls and processes in the Regional Office for Africa has been noted particularly on the management of imprest accounts and DFCs. However, there are still 10 out of 33 recommendations where actions of Management are still in progress.
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25.	Enterprise Risk Management Continue to work towards adoption of an Enterprise Risk Management Framework. (Para. 24)	Implemented We noted that efforts were exhibited by CRE in the further development of risk management within WHO. In fact, risk register validation is going to be pursued in future audit.
26.	Information Technology Explore the possibility of shifting the Secondary/DR Data centre to an off-site location other than Geneva. (Para. 89)	In progress We took note action of Management which is still in progress. The optimal timing for the bidding process is currently being reviewed and will request UNICC for options to relocate Disaster Recovery (DR) instances to one of UNICC's data centres outside Switzerland.
27.	AMRO ERP Work closely with AMRO during the development of its ERP, so as to achieve transfer of disaggregated data from AMRO at shorter interval. (Para. 99)	Implemented We took note that Management continues to work closely with PAHO on the development of their new system which is planned to go live from January 2016.

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28.	<i>Bank Accounts, Cash and Imprest accounts</i> Prepare bank reconciliation statements for all the bank accounts in the month following the one to which they relate and make efforts to reconcile balances which have remained outstanding for long. (Para. 51)	Implemented We recognized the efforts put into by the Management to ensure that bank reconciliations are completed on a timely basis along with the clearing of the reconciling items. We also took note of the monthly monitoring by the Regional Offices and a quarterly report to summarize the status of all imprest accounts and reconciliations at the Headquarters.
29.	Strictly comply with all prescribed procedures in respect of custody, handling and recording of cash. (Para. 53)	
30.	Reconcile the unreconciled items in the eImprest account to date and complete the necessary enhancements at the earliest. (Para. 57)	
31.	<i>Inventory Management</i> Strengthen internal controls in respect of its recording, valuation, physical verification and custody in order to have an effective inventory management system in place. (Para. 70)	Closed – updated in the current audit

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